



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., January 20, 2000. The following members were present:

Chairman Jody B. Olson
Susan K. Simmons
J. Kirk Sullivan
Pamela I. Ahrens

Trustee Dennis L. Johnson was absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Financial Officer Jim Monroe and IT Manager Ted Aho, Medical Advisors B. Strouth and John Mather, and Administrative Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn
Richelle Sugiyama
Dennis Fitzpatrick
Brian McGrath
Bill Palumbo
Rod MacKinnon
Karl Malott
Brent Nye
Jane Buser
Molly Creswell
Jason Hancock
Alan Pritchett
Judy Aitken
Charlie Brown
Mario Gianinni

Dorn, Helliesen & Cottle
Dorn, Helliesen & Cottle
D.B. Fitzpatrick & Co.
D.B. Fitzpatrick & Co.
Mountain Pacific Investments
Mountain Pacific Investments
P.F.F.I.
Boise School District
BSU
Givens Pursley
LSO
BEA
PERSI
REA of Idaho
Hamilton Lane Advisors

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(b)(d)(e) authorized the same. The Board went into executive session at 8:30 a.m.

After discussion of each disability applicant, the Board went back into regular session at 8:43 a.m. By motion duly made by Trustee Ahrens and seconded by Trustee Simmons, the Board unanimously approved the disability application of Ramona J. Barton, Velda J. Birdwell and Gail L. Sewell with no review. In the same motion, the application for disability retirement of firefighter Larry Barrett was approved with a two-year review as provided in Idaho Code.

OLD BUSINESS:

Chairman Olson thanked Trustees Sullivan and Johnson for chairing the November and December meetings while Mr. Olson was involved with the merger of his employer, TrusJoist MacMillan, with Weyerhouser.

Approval of the Minutes: By motion duly made by Trustee Sullivan, seconded by Trustee Simmons and unanimously approved, the Board approved the minutes of the December 14, 1999, regular Board meeting as submitted.

PORTFOLIO

Monthly Report: Doug Dorn of Dorn, Helliesen & Cottle reviewed the performance report for the period ended December 31, 1999. The total fund return for the fourth quarter was 13.4%, bringing the calendar year-to-date return to 19.5%. Mr. Dorn discussed individual manager performance and the different management styles and sector investments.

Monthly Portfolio Update: The PERSI Investment Report dated January 20, 2000, showed a total fund return for the month of -0.9% with the total current value of the fund listed as \$7,033,725,919. The fiscal year-to-date return is 10.3%. The Federal Reserve Board tightening in early 2000 now appears to be expected and markets have dropped since year end. U.S. equity value styles continue to be out of favor while the best performing markets are midcap growth and emerging markets. PERSI's international exposure continues to drive relative outperformance, both through global managers and international equity managers. Mountain Pacific, Brandes and Lend Lease are having difficult markets. The quarterly TIPS auction resulted in the yield remaining above 4% and, in accordance with previously discussed intentions, another \$125 million is being invested in these assets.

Chairman Olson asked about the Oregon Retirement System's problems. Mr. Maynard said it is a classic example of having different boards for liabilities, benefits and assets. They also give their retirees the option of taking the better of the DB plan or their returns on a portion of the funds. Mr. Winkle said each individual employer is rated on its own experience, so there are different contribution rates for different employers.

Mr. Maynard told the Board the PERSI fund may have peaked in returns. Peer reviews show that everything in our strategies is working. This raises expectations of our members as

well for ourselves, and can be a problem to us in the future. Mr. Maynard expects to rebalance the allocation from equities into fixed income, probably into TIPS bonds because of high real returns there.

Private Equity/Real Estate Report: Mario Gianinni of Hamilton Lane Advisors reviewed his 1999 Third Quarter Investment Review that had been previously furnished to the Board. He discussed the individual investments, saying he feels good about the portfolio. Ida West is a consistent star performer and Zeseiger stayed with his strategy which is paying off. He discussed other investments in the pipeline saying he is focusing on managers that perform well. Chairman Olson confirmed that the Investment Committee is still in place to review new investments.

Other Business: Chairman Olson opened the meeting to comments from managers. Dennis Fitzpatrick said he thinks the inflation fears are overdone and believes interest rates are likely to go down – but not as low as he had previously thought. Rob MacKinnon said Mountain Pacific's investment style -- growth at a reasonable price – has been hurt by the technology and similar sectors at valuation levels never seen before in the markets. They plan to continue investing the same way as in the past as that strategy has served them well over the long term. Brian McGrath said he does not see a recession coming in the near future. Companies who are not doing business on the internet within five years are not expected to be a company at all.

There was discussion regarding the PERSI annual report which was back from the printers the last week of December 1999. Chairman Olson asked Financial Officer Jim Monroe to investigate why it is not provided sooner each year and to look into the possibilities of providing this much earlier next year. Trustee Simmons said she was not sure what the value would be in having it earlier; Mr. Olson said people read it and it's more valuable if it is closer to the period it covers. Trustee Sullivan said it should be out in October. The Chairman asked for a report at the February meeting.

FISCAL:

Monthly Expense Reports. Financial Officer James Monroe reviewed a one-page addition to the materials he had previously furnished to the Board. The page provided a comparison of the Agency Request and the Governor's Recommendation. Chairman Olson discussed the fact that in order for the Board to have the authority to meet their fiduciary obligations, the portfolio investment budget must be removed from the appropriated funding process. A 1995 DFM requirement that PERSI submit a portfolio budget subject to appropriation was to have been a temporary situation to ensure compliance with guidelines worked out at that time as to which agency expenses qualify as portfolio expenses and which do not. Chairman Olson asked the trustees for guidance as to how to make progress in having this budgeting requirement discontinued. Consultant Doug Dorn said he recalls that when this process was being implemented, Barings, one of our asset managers, drew national attention regarding their big internal problem. The Board needs the ability to respond immediately to such unforeseen circumstances.

Mr. Monroe continued his discussion of the Governor's recommendation, saying a 3.5% CEC appropriation for merit increases with a shift of 5% to the pay scale is recommended. There was further discussion of the portfolio budget and the need for flexibility for fiduciary latitude. Budgets should be realistic and adhered to which shows good management. Trustee Ahrens noted that the Governor's recommendation also includes covering the cost of increased

employee medical insurance which is substantial this year. The 12% medical insurance increase amounts to about \$600 per employee.

Mr. Monroe briefly reviewed the Administrative, Portfolio and Out of State Travel Reports which had previously been furnished to the Board.

EXECUTIVE DIRECTOR

New Employer Unit: By motion duly made by Trustee Sullivan seconded by Trustee Simmons and unanimously approved, the Board welcomed Salmon River Hospital District as a new employer unit of PERSI effective January 1, 2000. There is no entry cost for them to join PERSI.

Status Report: Mr. Winkle reviewed his report dated January 13, 2000, saying effective January 1, 2000, the regular interest credited to member accounts has been changed to the Net Rate of Return on PERSI investments. According to the actuarial report, this rate is 11.11%. The repayment of interest remains at 4.75% for all repayments started before February 29, 2000. For repayments initiated after that date, the rate will be 9.25% on any unpaid balance.

He told the Board that a Request for Proposals is being issued to enhance and refine the Galena project. In response to a question from Trustee Simmons, IT Manager Ted Aho said 55%-60% of Galena is implemented and out of warranty. He is working with Watson Wyatt so that the changes we make will work well with the new parts of the system that will be on line soon.

Legislative Status Report: Mr. Winkle had provided the status of bills pertaining to PERSI in a memorandum dated January 13, 2000. The memo also presented information on three bills scheduled to come out of the Interim Committee for introduction. There is also legislation regarding increasing the limit of unused sick leave used for medical insurance premiums after retirement and regarding purchase of service.

Mr. Winkle discussed the PERSI plan enhancements being recommended by the Interim Committee. The Interim Committee supports increasing the formula multiplier to 2%, but not changing other formula components. They did not support the Rule of 85/75. Costs and options that they considered were discussed. PERSI was instructed to allocate the gain share according to contribution balances of employers, employees and retirees. Possible allocations were presented and means of distribution were discussed. IRS limits were also discussed as well as impacts on other 401(k) and 457 plans. Mr. Maynard said providing the cash flow for retirement and separation benefits can be arranged if the legislation passes.

Mr. Winkle concluded his discussion by reviewing a flow chart of implementing the proposed changes. He said this will set up an entirely new way of doing business at PERSI. A DC plan is very different with more customer contacts, more member education and the way of modeling the options has more unknowns. The State of Washington's retirement system recently implemented a similar but initially smaller program and needed 22 new employees and \$2 million in ongoing costs. We expect to use as many contractors as possible at first, and believe we can do this with only nine new employees.

The legislative process on these changes is just beginning. Trustee Sullivan said some legislators believe the 2% multiplier is too much. Some do not include medical costs faced by the retirees when they figure the "spendable income." Mr. Sullivan declared that medical insurance costs are no longer discretionary but are a necessary requirement for our retirees and must be considered in a true "spendable income" comparison. He also said he believes an incentive match program would be a good supplement to the gains sharing plan being

considered, but a plan structure that would meet the requirements has not yet been found. Educating our members will be a large component of a successful plan. The Board continued to discuss ways to keep fees to our members low if the plan is adopted by the legislature. Mr. Winkle said the legislation is currently written so that gains would be shared after the beginning of each new year, allowing participants to adjust their voluntary contributions to stay within IRS limits. While the current 15.78% contribution rate is a temporary rate, Board members agreed that members, employers and legislators perceive it to be permanent. However, members continue to indicate their willingness to contribute more to the system in order to enhance their benefits.

Chairman Olson directed staff to prepare correspondence to the constituents explaining what has occurred before the legislation actually starts through the process at the Statehouse. He asked for an education piece as soon as possible to notify all our members of the status and possible changes to the system.

FUTURE BOARD MEETINGS

Tuesday, February 22, 2000, 8:30 a.m., Boise - PERSI office

Tuesday, March 21, 2000, 8:30 a.m., Boise - PERSI office

Tuesday, April 25, 2000, 8:30 a.m., Boise – PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Ahrens, seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 11:35 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director